

PCV Holding: Who's next? - Planning the Succession

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PCV Holding: Who's next? - Planning the Succession

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Abstract - PCV Holding: Who's next? - Planning the Succession

This paper is a case study on a family business – PCV Holding – established in Mozambique. Having survived three generations and experiencing one of the most intense periods of growth, a tough issue emerges which is capable of compromising the future of the business: The Succession - How to transfer the management and ownership to the next generation while ensuring a fair process.

Through several meetings with the board members and owners, I had the opportunity to understand the business and the family history which allowed me to study it taking into consideration family business's subjects.

Acknowledgements

I would like to thank my advisor Professor Alexandre Dias da Cunha, who was always available to help me throughout this path.

Regarding PCV Holding, I owe a special thanks to the brothers António and Pedro André Coral Vieira who were always available to meet me, to answer all my questions and without whom this case study was not possible. Finally, I also would like to thank, Dr. Sebastião for his patient to explain me the business history.

PCV Holding: Who's next? - Planning the Succession

Three days have passed since the board meeting in Maputo and now back in Portugal, walking home in the cold after his medical appointment, Pedro Manuel (the CEO of Grupo PCV and grandson of the founder Pedro Coral Vieira) is thinking about all the different options he has. Winter is coming and November's freezing wind helps him to clear his mind. His doctor's news was not great and it seems his health will not allow him to have such a stressful life between the two countries anymore.

Six years have passed since his oldest son, Pedro André, left Portugal to embrace the family business. Pedro Manuel knows that since his oldest son arrived in Mozambique, in 2007, he devoted all of his time and effort to that business. António, his youngest son, has been working for the company for almost ten years and has experienced the tough times the company has been through during the past decade. Pedro Manuel knows how much effort and sacrifice he put into building PCV but now it represents his most fulfilling years and after such a hard-work and devotion, his sons deserve the opportunity to take care of the business. They worked for that. But how should he do it?

From a Grocery Store to a Diversified Business

The Mozambican Heritage

Along the South-Eastern coast of Africa and bordering the Indian Ocean's warm waters, Mozambique was a Portuguese colony for almost five centuries. Throughout the years, the country observed a large-scale immigration of Portuguese people who came to do business and helped with

the country's development. By the mid-1920s, working in agriculture, the Portuguese colonizers were succeeding in creating the basis to a strong economy producing large amounts of cotton, tea and rice to sell in Portugal. As a natural source of agricultural raw materials, the country experienced an amazing growth during the 1950s, 1960s and early 1970s attracting even more Portuguese and foreign investments. New infrastructures were built to facilitate the trade with interior South-African countries and several arrangements were signed to boost exports.

While economically the country was experiencing worthy times, some political groups emerged to fight against the Portuguese presence and in 1975 Mozambique became an independent country with Samora Machel, from Frelimo, as the first president. Soon after independency, some measures to restart the economy were taken as the expropriation of farmlands and the nationalization of private companies which were also the origin of a civil war which just finished in 1992. However, by the end of the war, Mozambique was completely devastated and classified as one of the poorest countries in the world.¹

Almost twenty-one years after the civil war ended, and having to endure destructive floods in 2000, Mozambique is still in the world's poorest countries list but showing one of the highest growth rates of the Sub-Saharan African countries, about 7,5% in 2011(Exhibit 1), especially due to foreign direct investment.²

The Young Portuguese Entrepreneur

It was in 1897 that Pedro Coral Vieira, a nineteen year old boy, impressed by the African potential and moved by its entrepreneurial spirit decided to go to Mozambique. Pedro Coral Vieira was born in a town in the middle of Portugal called Bombarral but soon moved to Lisbon and studied there.

¹ Unger, Monika and Xavier, Isabel H. 2006. *Geografia do Mundo –África e Oceania*. Rêgo, Paulo and Osório, Paulo de Castro. Lisbon: Círculo de Leitores.

² BCI. 2011. "Annual Report". <https://www.bci.co.mz/Institucional/RelatorioContas2011.pdf>.

He then travelled to Mozambique Island, a small island just off the coast of Mozambique and started working in a grocery store. Just eight months later, his motivation and ambition made Pedro the owner of the small store, which was just the beginning of a growing and diversified business that today is owned by his descendants. From a grocery store, Pedro Coral Vieira grew and diversified the business investing in strategic areas and creating an empire with his name: Grupo PCV.

The Business History

Group PCV is known as the oldest and one of the most symbolic companies in Mozambique, having been in business for over a hundred years and being a part of the Mozambican history.

As some other Portuguese in Mozambique, Pedro was a cotton producer and in 1939 founded the PCV Algodão. As the business grew, taking advantage of the new infrastructure and agreements made to simplify international trade, in 1958, PCV Industrial was founded as an automobile importer and distributor and in 1964, the group created Cofesa, in Portugal, to export cotton from Mozambique to Portugal. One year later, in 1965, making use of their knowledge in the agriculture sector, the company created PCV Agrícola and in the nineties created a metalworking company.

Not everything was good throughout the years. The business went through the Portuguese decolonization where the majority of Portuguese living in Mozambique returned to Portugal and also the Mozambican civil war. “We were the only company that didn't stop its activity even though some factories and trucks were bombed several times. We ended up having to have our factories protected by 600 gunmen. It was a difficult time but we never gave up because we wanted to be a partner of the country” reminds António Coral Vieira. Relying on the family's resilience the business also managed to not be nationalized.

Such tough times and the desire to build and diversify the business made it grow in a disorganized way which meant the business almost went bankrupt in 2000. However, Pedro Coral Vieira's descendants also have his motivation and didn't want the family business to end that way, especially in 2007 when the country's economy was growing so fast, there were still innumerable natural resources to explore and the national reconstruction program was demonstrating good results³. Through several changes in governance, ownership and in the business structure along with new investments in the company and coupled with their market knowledge and experience the family created the necessary conditions to continue the business. In 2007, they implemented a new strategy and focused on the country's most promising sectors: Agriculture; Metalworking; Automobile, and Real Estate.⁴

The Agricultural Sector

Agriculture makes up a large part of Mozambique's economy being responsible for 25,9% of the national GDP in 2007 (Exhibit 2). With agriculture expected to continue to expand and noticing that the government was increasingly investing in the sector, with nearly 6,5% of the total government spending in 2007 devoted to agriculture (Exhibit 2 and 3), Pedro Coral Vieira's descendants realized that Agriculture was an opportunity to keep the business growth. Today, PCV Agrícola, has around 18000 ha where cattle, salt, cashew nuts and eucalyptus are produced and explored⁵ and PCV Algodão, which in 2011 was ranked as one of the three companies leading the sector (Exhibit 4) and in 2012 generated about \$12 m⁶ with one million hectares to produce and process cotton.

³For more detail read the *Mid-term balance of the government plan 2005-2009* on http://www.portaldogoverno.gov.mz/docs_gov/programa/balanco%20meio%20termo_PG.pdf/view

⁴ Data on the business between 1897-2007 not available

⁵ Data provided by the company.

⁶ Data provided by the company.

The Industry Sector

Acquired in the 1990's, this part of the company was already established in the Mozambican metalworking industry in 2007. Foreseeing a huge market opportunity due to the expected increase in the number of mega projects financed with foreign capitals (Exhibit 5),⁷ which demand high skills particularly in the metal industry,⁸ the family decided to preserve the company. Today, it is a crucial part of the family business, generating about \$5m in 2012⁹, able to satisfy any metalworking project, mostly because of a strategic agreement made in 2012 with an Iberian company, URSSA.

The Automobile Sector

Being the oldest company in the auto sector in Mozambique, PCV Industrial, was already part of the economy. By that time, the sector was already in the top ten Mozambican imports, being responsible for 8% of its value (Exhibit 6). However, the country still faced critical infrastructures challenges and the connectivity between urban areas and important markets clearly needed several improvements (Exhibit 7). Noticing how improving roads among the country was a clear goal that the government must attain to sustain high economic growth rates and knowing how demand for durable goods as automobiles were growing¹⁰ this sector was obviously a strategic sector to invest on. At this time, PCV Industrial, is an exclusive distributor of several automobile brands, with stores all over the country, able to satisfy any customer.

⁷ OECD Development Centre. 2008. "African Economic Outlook 2008". http://www.oecd-ilibrary.org/development/african-economic-outlook-2008_aeo-2008-enjsessionid=cn29nrp1qre7.delta.

⁸ OECD Development Centre. 2008. "African Economic Outlook 2008". http://www.oecd-ilibrary.org/development/african-economic-outlook-2008_aeo-2008-enjsessionid=cn29nrp1qre7.delta.

⁹ Data provided by the company

¹⁰ OECD Development Centre. 2008. "African Economic Outlook 2008". http://www.oecd-ilibrary.org/development/african-economic-outlook-2008_aeo-2008-enjsessionid=cn29nrp1qre7.delta.

The Real Estate Sector

Restructuring the business, looking for new opportunities while keeping its desire to be a partner of the country made the family decide to get in the real estate sector and founded the Imobiliária PCV to sell and rent houses and projects from the North to the South of the country. Construction is of the utmost importance for the development of a country, and by that time it was showing impressive growth rates, higher than 20% in 2006 (Exhibit 3). Today, the group is seeing worthy results of such investment and is doing two big projects in two of the most important cities in the North: Nampula and Tete.

Generation to Generation: The Family History

Family Stewardship

While living between Mozambique and Portugal Pedro Coral Vieira married and three children were born: the twins, Pedro Junior and Paulo, and a girl called Maria. The three children were born and raised between the two countries. Both twins enjoyed the life in Mozambique and his father's business. It was in Portugal that Paulo and Pedro Junior met their wives and married them. Paulo and his wife had four children: Paulo Jr., Luísa, Ana and Beatriz. Pedro Junior had just two children: Pedro Manuel in 1951 and Maria do Rosário in 1953 (Exhibit 8).

Pedro Coral Vieira, the founder, died in 1957, at the age of 79, leaving his business with his two children Pedro Junior and Paulo who seemed to be the only ones who wanted to continue the business. Without any plan, the siblings decided to split the ownership equally between them but just the twins assumed the management as Co-CEOs.

Having learned about the business from their father, the twins decided to put their effort and energy into expanding the business and together saw it grow and built an empire. After their father's death,

they founded PCV Industrial, Cofesa and PCV Agrícola. By that time, they were known and admired all over the country. With their visionary mind and determination they were recognized by its huge social impact. Together they created thousands of jobs, gave technical assistance and training to farmers, reconstructed roads and bridges, gave medical care to workers and to the population, helping with the development of the country, especially in the North where there was the poorest rural areas. Such initiatives gave to the group an enormous recognition among the population and later Fundação PCV was founded to last and to create awareness of their social activities.¹¹

In 1971, after hard life of work, the twins were aging and seeing that their children were still studying, they decided it was time to find someone to manage the business. Looking for alternatives they decided the best option would be to give the position to someone they already knew, someone who worked for the company for a long time, knows the business and had the skills to do it. By that time, proud of being chosen, Dr. Serguine assumed the CEO position.

However, just four years later, with the country independency the government implemented some nationalization policies and so, to keep the business in the family some family member needed to take charge of it. It was by that time that Pedro Manuel, who has always demonstrated a desire to join the family business, drawn by his sense of family loyalty, decided to go to Mozambique as a board member after he finished his studies in Portugal while Dr. Serguine was still the CEO. Pedro Manuel was followed by his cousin, Paulo Jr., who went there to represent his part of the family but always assumed non-executive roles (For more detail look at Exhibit 9).

¹¹Data provided by the company

Pedro Manuel was raised in Lisbon and studied Economics at ISEG also in Lisbon. Since he was a child he listened to his father's stories about the business which created his desire to follow his family's business and never let it go out of business. He met his wife, Isabel, in Portugal and married her right before going to Mozambique.

With Dr. Serguine's help, the business went through the Portuguese decolonization and the civil war. During that time, Pedro Junior died, in January 1980, and his wife got his part of the company. However, affected by the war, in 1999, the business was completely disorganized and was close to bankruptcy. By that time, Pedro Manuel saw the only chance the business had of survival was to invest in it. He called his sister, Maria do Rosário, and his four cousins to design a strategy to keep the business alive. The strategy was clear: The company needed money and if they wanted the business to survive they had to invest in it. However, the cousins did not want to participate in the investment, making the siblings Pedro Manuel and Maria do Rosário do it by themselves and therefore the cousins' shareholding positions became diluted. During that year, the cousins ended up with just 14% of the shares and Dr. Jorge, a long time worker, was chosen to be the CEO.

Maria do Rosário was also raised in Lisbon, where she studied languages but initially decided to work for herself and opened an art and an antiques shop.

Although it was not her wish, after making the investment in the family business, Maria do Rosário decided to go to Mozambique in 1999 and become a board member. During her time working for the business the family created a holding company, in 2001, to organize and incorporate all the different businesses. However, by 2007 the company had still not returned to the level of profitability it had been at in the past and with different backgrounds, the siblings had different visions about business which sometimes generated conflict between them. In order to avoid more conflict and as her children, like her did not want to be a part of the family business, Maria do

Rosário decided to sell her shares to her brother. The transaction was agreed and completed in just two meetings; an external entity evaluated assets and liabilities and a five-year cash-flow was estimated to determine the company's value.

After acquiring all of his sister's shares, Pedro Manuel who was 56 by that time, decided to give 10% of the company to each son. Together with his sons and Dr. Sebastião, a long time worker of the company, they formed the new executive board of directors. From 2007, with the family motivated, the real restructuration began. Focusing the business on the most promising and strategic areas, diluting the 14% of the cousins' remaining shares with a new investment in 2009, downsizing the workforce from 2000 effective employees to just 450 and with a reorganization of the business they created the basis for a sustainable growth.

The Fourth Generation

Succession: A Non-Planned Process

While leaving between Portugal and Mozambique, Pedro Manuel had two sons: Pedro André in 1977 and António in 1980. Pedro Manuel, who has always worked for the family business, raised both children in Lisbon and always wanted them to know about the business their grandfather and his brother built in Mozambique but was always aware of how important it would be to his children to have some experience outside the company. Maria do Rosário also got married with Victor and three girls were born: Inês, Catarina and Rita. All the children grew up and studied in Portugal and always had a good relationship with their cousins, spending vacation and celebrating Christmas and birthdays together.

Although raised in Portugal, both sons always spent holidays in Mozambique and Pedro Manuel always hoped one day some of his sons would want to run the business after his retirement. When

he acquired his sister's shares, in 2007, he decided to give 10% to each son hoping it would encourage them to pursue the business. Seeing that his sons were motivated to work for the company he also challenged them, making them responsible for two main businesses areas: Pedro André became responsible for the Real Estate and the Industrial sector while António was responsible for Agriculture and Automobile sectors.

Despite his efforts to get his children in the business, what percentage each son would ultimately receive or who will be Pedro Manuel's successor were never discussed.

Pedro André

Pedro André, the oldest son, grew up and studied in Portugal. Following his father desire about working outside the family business, after getting a university degree in management his first job was in a Portuguese bank, BPI, as an analyst. By heritage, Pedro André is an entrepreneur and one year later he and his friends decided to start a construction company. With the funds provided by the business, together they decided to invest in other areas and created a car wash company, a clothes brand and an agricultural business. Due to his studies and experience he has a good sense of business. However, he never thought about or expressed a desire to go to Mozambique and work for the family business until his father called him in 2007. By that time, he got 10% of the family business' shares and so, left his own businesses in Portugal to join his family in Mozambique.

António

António is three years younger than Pedro André and also grew up and studied in Portugal. However, unlike his brother he was always passionate about Mozambique. In 2003 during his university degree in Agronomy, he decided to follow his passion and move to Mozambique to do his final work. From that time, he never wanted to go back to Portugal. By 2004, the family business was experiencing bad times and his help was very much welcomed which was another

reason pulling him towards Mozambique. Together with his father and his aunt, he experienced all the tough times the business faced and felt the pressure of working with family members with different visions. After got married in 2009 and raising his kids in Mozambique, António hopes one day they would want to succeed him.

By having grown up together, the siblings always had a strong and close relationship. As they work together they decided to separate their work from their family relationship and keep communication very professional at the office while at home they continue to be the siblings.

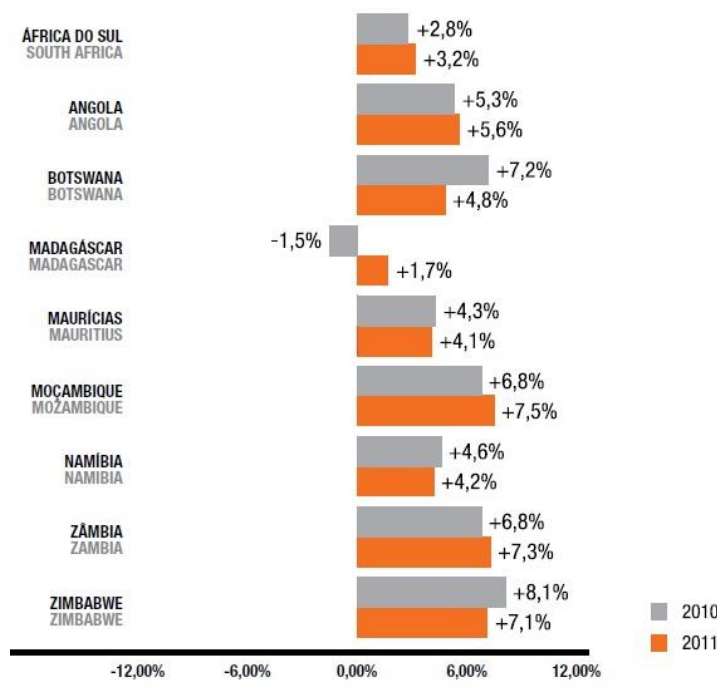
The Dilemma – Ensuring the Fourth Generation Success

Six years have passed since Pedro Manuel got his two sons to work for the family business. After a period of adaptation he can now recognize how well they are going. There is still a strong sense of family unity with all family active in the business: while he and the boys still sit on the board, his wife is working in the Real Estate business choosing the materials. The sons earned non-family employees' respect, all of them recognize how dynamic they are and how such a new positive mood is now felt everywhere in the company. A new board member is now being recruited to take charge of the financials, the reorganization of the company is showing good results and the family is now thinking about get in the energy industry. Despite his efforts to create a board to take decisions, nothing is properly defined and Pedro Manuel knows he still owns 80% of the shares and as the Executive Chairman he always gets the ultimate vote.

Throughout this time, the family was able to find strategies to maintain a good relationship and to clearly define the boundary between work and family life. Even though they are all aware of what their biggest challenge in the future is: The succession process, no one had ever dared to discuss the topic. Experiencing the most intense growth years, facing incredible tough competition from new

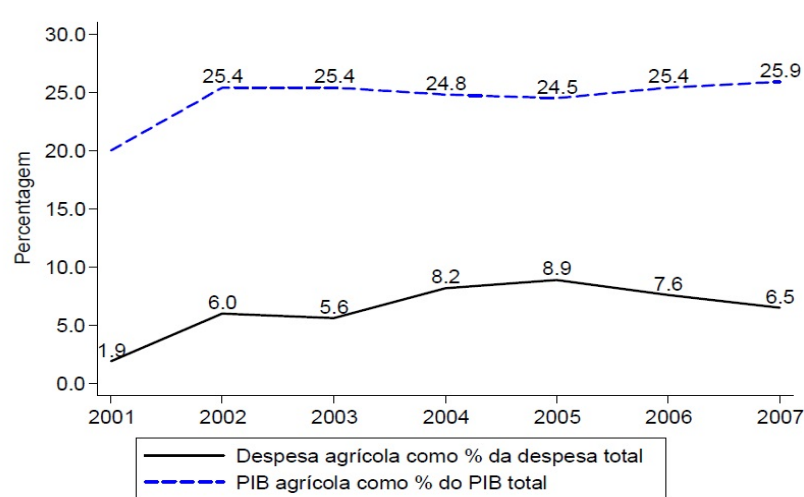
foreign companies, Pedro Manuel knows he had no time to think about such a complex process as succession planning. Having survived three generations and after such a big investment, at this time, the company represents his most valuable asset. He has to make sure his decision does not compromise the business. Although no succession plan has been created, he knows he wants the management and the ownership of the business to remain in the family and give 40% of it to each son. However, he does not know how or when to do it as he never developed any strategy or even a retirement funding plan. Although ownership is not his major concern as eventually he will write his will, when he thinks about the management's transfer, he becomes worried. Leaving the board without appointing a person who takes the final decision does not seem to be a good solution. Additionally, he is aware of the vulnerabilities the business is exposed to as the siblings are both acting as Co-CEOs and never stopped to define rules and objectives and without him conflicts can emerge. At the same time, there is the emotional matter... Until now the division seemed clear: each son manages the business areas he is more familiar with. To take decisions, the board meets and he takes the final decisions but now, who is going to do it for him? When thinking about the situation, his son Pedro André quickly says that if someone has to be the CEO his brother is the right person to do it. After listening to his doctor's news, Pedro Manuel is completely lost: My son Pedro André's option does not seem to be the fairest one but I do not know what to do... Should I follow his opinion or should I prepare my sons to work as co-leaders? - Maybe I can wait a little bit longer?

Exhibit 1 GDP Growth 2010-2011



Source: IMF. January 2012. *World Economic Outlook*.

Exhibit 2 Agriculture weight of GDP and Government Spending (2001 -2007)



Source: Mozambican National Statistics Institute

Exhibit 3 Global and Sectorial Production – Growth Rates (%), 2002 to 2009

Produção Production	2002	2003	2004	2005	2006	2007	2008	2009
Agricultura, Pecuária e Silvicultura Agriculture, livestock and forestry	12.2	8.4	9.1	1.8	10.4	8.6	10.5	8.6
Agricultura Agriculture	13.5	9.7	9.0	1.5	11.1	6.7	11	4.2
Pecuária livestock	5.9	5.0	12.8	0.7	8.1	33.5	12.7	47.7
Silvicultura e Exploração Florestal Forestry services	7.0	0.9	5.6	5.6	4.7	2.5	1.5	1.4
Pesca Fisheries	-4.3	9.5	-3.8	3.4	-3.5	-3.3	27	-1.8
Indústria de Extração de Minerais Mining Industry	38.1	5.5	215.7	11.1	13.0	10.0	11.8	22.3
Indústria Transformadora Manufacturing Industry	10.4	-2.8	12.7	3.6	3.6	2.8	-1.6	2.8
Electricidade e Água Electricity and Water	4.5	-5.3	5.7	12.8	9.9	8.4	-3.3	5.9
Construção Construction	18.2	-3.5	-14.6	25.8	23.6	9.9	18	17.1
Comércio Trade	-2.3	22.0	-0.1	2.1	4.2	9.0	12.8	7.9
Serviço de Reparação Repair Services	1.6	1.6	0.1	1.1	4.5	0.6	1.5	36.3
Restaurantes e Hotéis Restaurants and Hotels	3.8	3.8	1.1	6.1	15.2	12.8	13.5	2.6
Transportes e Comunicações Transport and Communication	8.0	11.0	16.4	19.5	21.2	20.4	12.3	15
Serviços Financeiros Financial Services	63.2	12.7	0.9	2.9	2.9	2.7	8	8.7
Aluguer de Imóveis Real State	2.1	2.0	2.5	2.4	24.0	2.4	12	7.8
Serviços Prestados a Empresas Services Provided to Companies	0.0	4.3	1.9	5.6	4.8	4.0	5.2	
Serviços do Governo Government Services	3.8	14.0	5.6	21.0	4.5	4.9	9	6
Outros Serviços Other Services	3.5	16.2	8.5	1.4	4.3	0.1	0.2	-0.7
Total da Produção Total Production	9.5	7.0	4.6	8.4	9.2	7.8	8.1	7.8

Source: PES (Government's Economic and Social Plan) Balance, 2002 to 2009

Exhibit 4 Revenues and Employees of the top 3 companies in the Mozambican agriculture sector

Rank	Empresa Company	Vol. de Neg. Revenues			Nº Trabalhadores Nº of Employees			VN por Trabalhador Revenue per Employee		
2010	2009	2010	2009	%10/09	2010	2009	%10/09	2010	2009	%10/09
1	1 Mozambique Leaf Tobacco, Lda	5,222,470	4,423,539	18	5,937	5,053	17	950	875	9
2	1 Mozfoods SA (ex Grupo Moçfer, SA)	306,000	244,000	25	1,891	1,894	(0)	162	118	37
3	3 SAN-Sociedade Algodoeira do Niassa JFS, SARL	117,440	74,466	58	194	228	(15)	557	451	23

Source: KPMG, ed. 2011. "The top 100 companies in Mozambique". Mozambique.

Exhibit 5 Foreign Direct Investment (2004-2008)

(10 ⁶ USD)	2004	2005	2006	2007	2008
Investimento estrangeiro em Moçambique	245	108	154	427	587
Investimento de Moçambique no estrangeiro	0	0	0	0	0
Posição no "ranking" mundial					
Como receptor	115 ^a	130 ^a	139 ^a	120 ^a	116 ^a
Como emissor	208 ^a	127 ^a	130 ^a	142 ^a	142 ^a

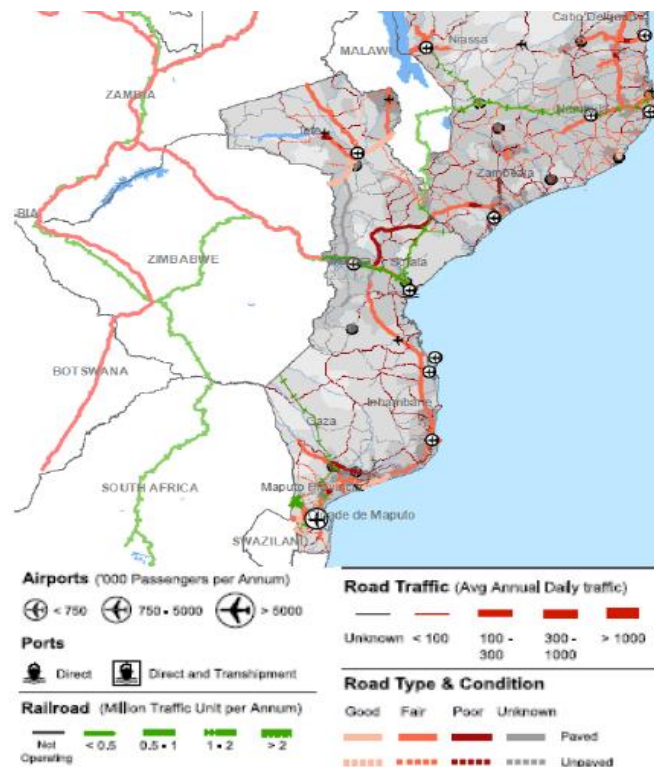
Source: UN Conference on Trade and Development

Exhibit 6 Top 10 Mozambican Imports 2003 and 2007

Nomenclatura Combinada	2003 (EUR Milhões)	2007 (EUR Milhões)	TCMA ₀₃₋₀₇ (%)	Ranking 2007	Peso 2007 (%)
2710 - Óleos de petróleo ou minerais betuminosos, excluindo óleos brutos	196.6	341.4	14.8	1	16.5
8704 - Veículos automóveis para transporte de mercadorias	48.7	112.6	23.3	2	5.5
1006 - Arroz	52.1	82.9	12.3	3	4.0
2716 - Energia eléctrica	43.8	75.8	14.7	4	3.7
1001 - Trigo e mistura de trigo com centeio	39.1	60.2	11.4	5	2.9
8471 - Máquinas automáticas para processamento dados/unidades; leitores magnéticos	10.6	52.8	49.4	6	2.6
8703 - Automóveis de passageiros e outros veículos transporte passageiros	40.5	50.8	5.8	7	2.5
2523 - Cimentos hidráulicos (incluindo <i>clinkers</i>) mesmo corados	12.7	41.0	34.0	8	2.0
3004 - Medicamentos, em doses ou acondicionados, para venda a retalho	15.9	35.4	22.1	9	1.7
0303 - Peixes congelados excepto os filetes e carne de peixe	12.6	26.2	20.1	10	1.3

Source: Espírito Santo Research. 2008. "Moçambique – Oportunidades de Exportação". Paper presented at Fórum Missão Exportar of Mozambique.

Exhibit 7 Road Type and Conditions 2011



Source: Torres, Carolina Dominguez and Garmendia, Cecilia Briceno. 2011. "Mozambique Infrastructure: A Continental Perspective." Washington: The World Bank.

Exhibit 8 Genogram

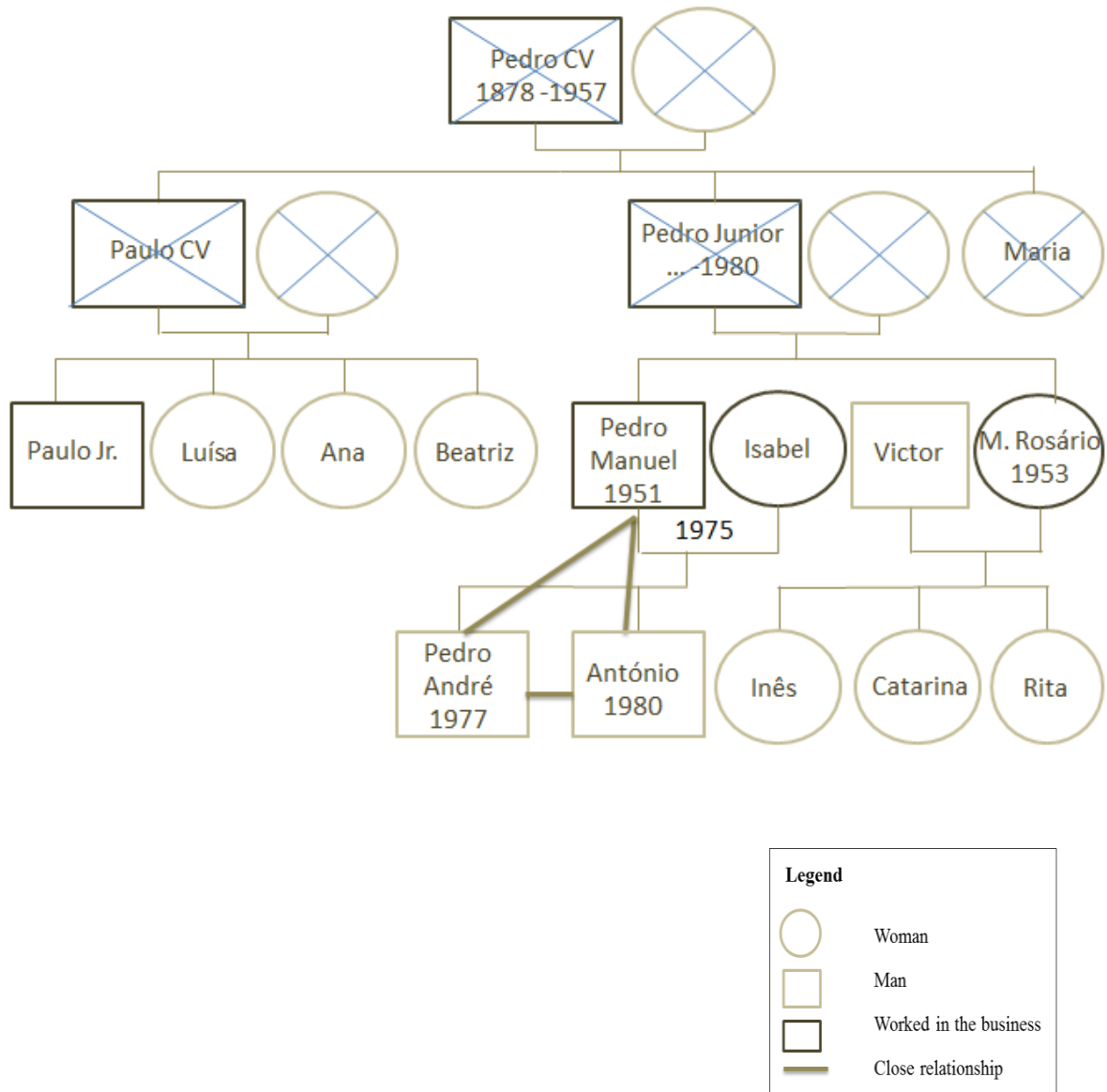
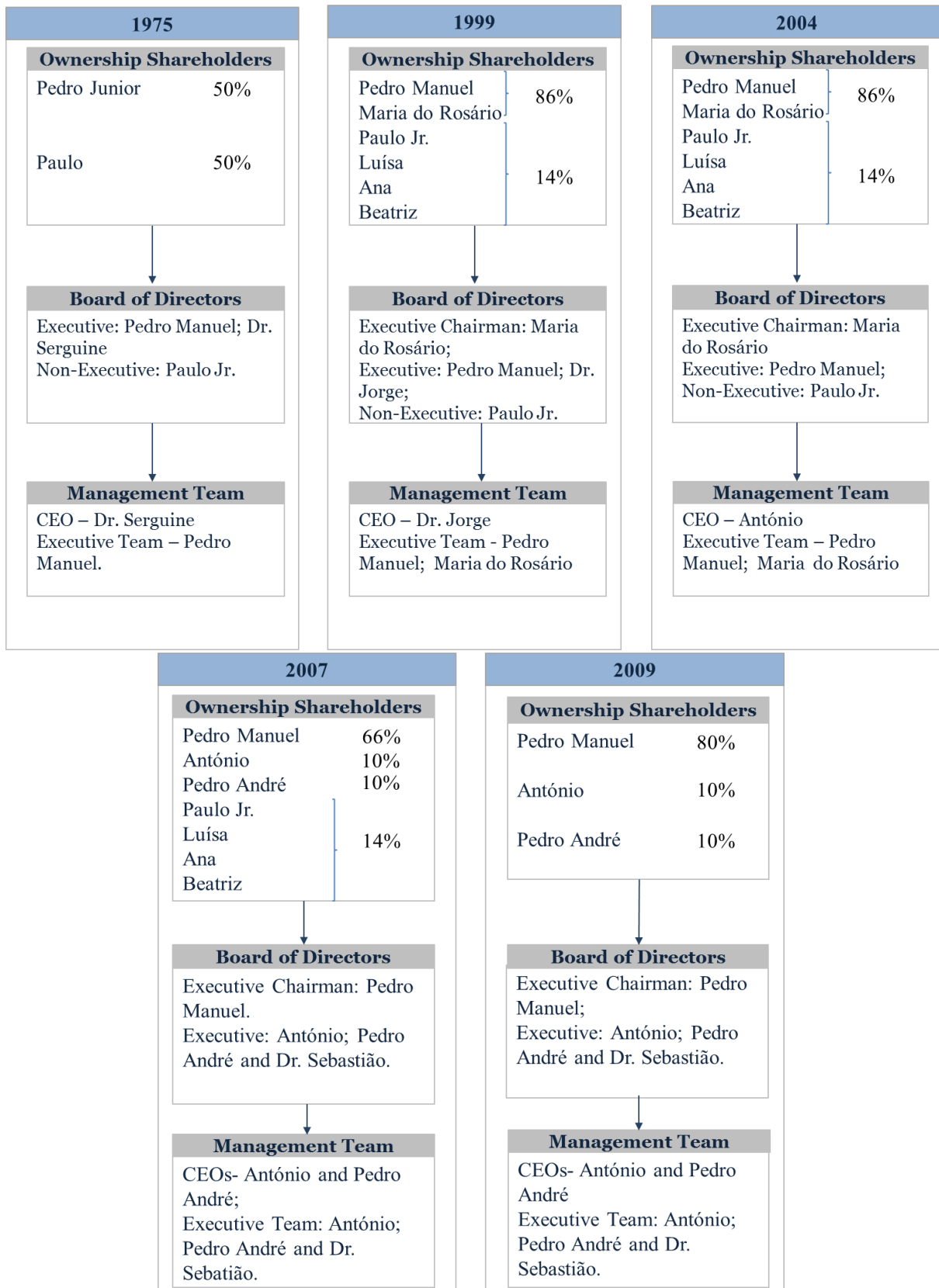


Exhibit 9 Ownership and Management Structures





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Teaching Notes

This case was developed for professors who want their students to explore business dynamics and the complexity of succession processes when there is a family behind the business. It could be used in courses related to family business. To get a real learning while solving the case, students should assume the role of the business's owner and think as entrepreneurs who after built their business, just want to take the best succession decision to the company and to the family. Furthermore, students could suggest moves that Pedro Manuel could take, analyze them, discuss about the succession process and evaluate its fairness.

Suggestions for Student Analysis

- 1) What should Pedro Manuel do now? (Use TN Appendix 1 and 2)
- 2) How should the process to choose the next CEO be? (Use TN Appendix 3,4 and 5)
- 3) Should António be chosen as the next CEO? Why or why not?
- 4) What are the implications of the family inheriting the business without a plan?

1) Moves that Pedro Manuel could take (Use TN Appendix 1 and 2)

To evaluate the options, students could use the models studied in class:

1.1 The Systems Theory Model of Family Business: To understand the different dynamics within the business and then to be able to identify each person's roles, motivations, priorities and dilemmas as well as the interpersonal scheme.¹²

¹² Refer to Teaching Notes Appendix 1 for a detailed description of this model

1.2 The Three- Dimensional Developmental Model: To enable a deep understanding of the present and future business/family/ownership structures' key challenges.¹³

1.3 Point out possible moves and analyze each move's pros and cons.

Referring to the first point, there are six key persons who could be identified: Pedro Manuel, who owns 80% of the company shares, is part of the board and is a family member, which places him in category 1; Pedro André and António, who are also in category 1; Isabel, the wife and mother, who is just a family member and is in category 6; Dr. Sebastião and the new board member who are in category 7. If Pedro Manuel wanted the transfer of management based on management skills, all of the board members could be considered, but as he wants to choose a family member only the two sons would ultimately be considered. After the first analysis, it is now important to assess which stage the family, business and ownership are in. The family is in the "Passing the Baton" phase despite the fact no one dared to discuss the topic. Everyone is concerned and knows what their biggest challenge is now: the succession process; two generations are now active in the business, the senior and the junior generation. Regarding the business axis, PCV Holding lays on the "Expansion/Formalization" phase since they are already established in the market and are still growing, operating in different areas and looking for new market opportunities. Concerning the ownership, this family business represents the "Controlling owner" phase since Pedro Manuel still has 80% of the shares and his biggest concern is the passing of the business to the next generation. At this stage it is important to note that ownership decisions should come first before leadership issues, since it is the owners who decide who will lead the business.¹⁴ As stated in the case, Pedro Manuel, wants to create a sibling partnership, giving 40% to each son. However, he has not decided

¹³ Refer to Teaching Notes Appendix 2 for a detailed description of this model

¹⁴ Kenyon-Rouvinez, Denise and Ward, John L. 2005. *Family Business Key Issues*. Basingstoke: Palgrave Macmillan.

how to transfer the management yet; so, it is possible to point out some possible options and evaluate them:

1st option: Encourage his sons to work as Co-CEOs and eliminate the Chairman position:

Pros	Cons
<ul style="list-style-type: none">✓ Family sense of fairness;✓ Co-leadership facilitated by high levels of trust, family unity and “working together” experience;✓ The sons have different and complementary skills which could be an advantage to specialization, to get in new markets and to deal with the country and market's complexity.	<ul style="list-style-type: none">✓ Non-family board members' sense of unfairness since they were not considered;✓ Blurred boundaries could emerge leading to disagreements;✓ They need time to align their missions, visions, create rules and objectives;✓ Co-CEOs must want to co-lead, and must be tolerant with divergent views;✓ Pedro Manuel leaves the business without a transitional period;✓ Difficulties in decision-making and taking leading to slower processes.

2nd Option: Make one of his sons the CEO and eliminate the Chairman position:

Pros	Cons
<ul style="list-style-type: none">✓ No need for time to plan and align sons' missions/visions and goals, allowing the team to focus on the business;✓ There are no conflicts of interests as there is a clear role separation;✓ Generates efficiency because it allows a quicker decision-making and taking.	<ul style="list-style-type: none">✓ Sense of familiar unfairness and consequent decrease of one of the sons' effort;✓ Non-family board members' sense of unfairness since they were not considered;✓ Decision making and taking made without other's opinions and points of view which could decrease decision's quality and compromise business performance;✓ Pedro Manuel leaves the business without a transitional period.

3rd Option: Pedro Manuel remains as Non-Executive Chairman and his sons as Co-CEOs:

This move has advantages as there will be no unfairness' feelings, the father will be there to monitor and to evaluate the children's performance and also to take care of non-executive duties as establish and organize board's activities and meetings. However, if something bad happens to the father, the sons will have to decide how they will split the positions and responsibilities between them.

2) Process to choose the next CEO

The process of choosing a successor often leads to family disagreements and sense of unfairness. To overcome this situation, the process should start by encouraging the next generation to participate in family and business decisions and thus creating a Fair Process.¹⁵ This process is based on three principles: Engagement, Explanation and Expectation. As could be seen throughout the case study, Pedro Manuel, successfully engaged his sons to work in the business and always talked about it with them. However, no one has had any clarification on what their career prospects are or what the ownership structure will be in the future. While creating a Fair Process, it is also important to prepare the transition which could be done by following six stepping –stones.¹⁶ Through this process, the next generation gets to know the business, the values and its soul from a young age; their studies are oriented towards the family business's sector; they get internal education and external experience; they get to work in the family business in lesser roles in order to get experience and win other employees' confidence and there are written plans and agreements for careers, management, ownership and legal and fiscal topics. However, in this case there is more than one candidate to the leader's position. So, if Pedro Manuel thinks that the best option is to have just one CEO, he could assess his sons' characteristics and behaviors to determine their leadership skills and define the criteria based on the business phase and values.¹⁷ For instance, commitment seems to be one of the most important characteristics, as he put a lot of effort in building the business and wants his sons to continue his path. If the choice is to have Co-CEOs, he needs mechanisms to manage their interdependence as the creation of an organizational structure to separate roles and common goals/rules to decision-taking.

¹⁵ Refer to Teaching Notes Appendix 3 for a detailed description of this model

¹⁶ Refer to Teaching Notes Appendix 4 for a detailed description of this model

¹⁷ Refer to Teaching Notes Appendix 5 for a detailed description of this model

3) Should António be chosen as the next CEO? Why or why not?

When considering this hypothesis, the nature of next-generation commitment¹⁸ is of utmost importance. António's commitment is affective since he clearly "wanted to join" even though he knew about the bad situation the business was facing. He saw in the business the best opportunity to work, he is really committed and wants his children to work there. Furthermore, he has been working for the business for a longer time than his brother and then knows the business better. These are some of the key factors to a successful CEO successor.¹⁹ On the other hand, it could be argued that António could not have the necessary skills to be the CEO as his background is not management, he has no experience outside the business and there is the risk of unfairness' feelings.

4) Implications of the family inheriting the business without a plan

Throughout the case, it became clear that Pedro Manuel simply wants to transfer the ownership to his sons. However, ownership transfer constitute one of the most critical decisions to a company, not only because it will affect future ownership structures but also because the owners are responsible to make the business achieve its objectives, to ensure the quality of the board members and that the family's values are kept. Furthermore, owners have no strict job requirements, and so, planning is essential. To fail to plan could lead to family conflicts and to one brother wanting to buy the other's shares. Such plan should incorporate education about the business and the owners' responsibilities, the creation of ownership agreements and Estate plans incorporating retirement funding strategies and a formal plan of the business' governance.²⁰

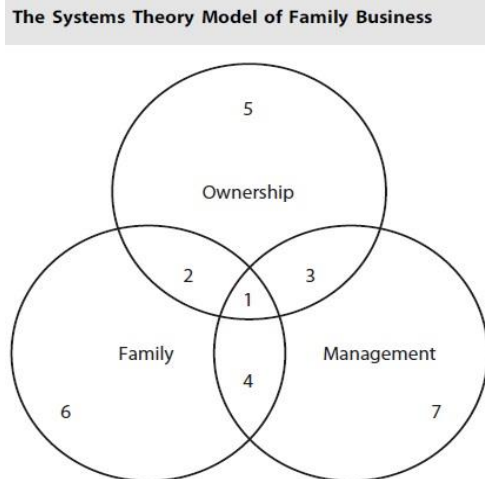
¹⁸Sharma, Pramodita, and Irving, Greg. 2002. "Four shades of family business successor commitment: Motivating factors and expected outcomes." Unpublished.

¹⁹ Poza, Ernesto J. 2010. *Family Business*. 3rd ed. Mason, OH: South-Western Cengage Learning.

²⁰ Carlock, Randel S. and Ward, John L. 2001. *Strategic Planning for the Family and Business*. New York: Palgrave.

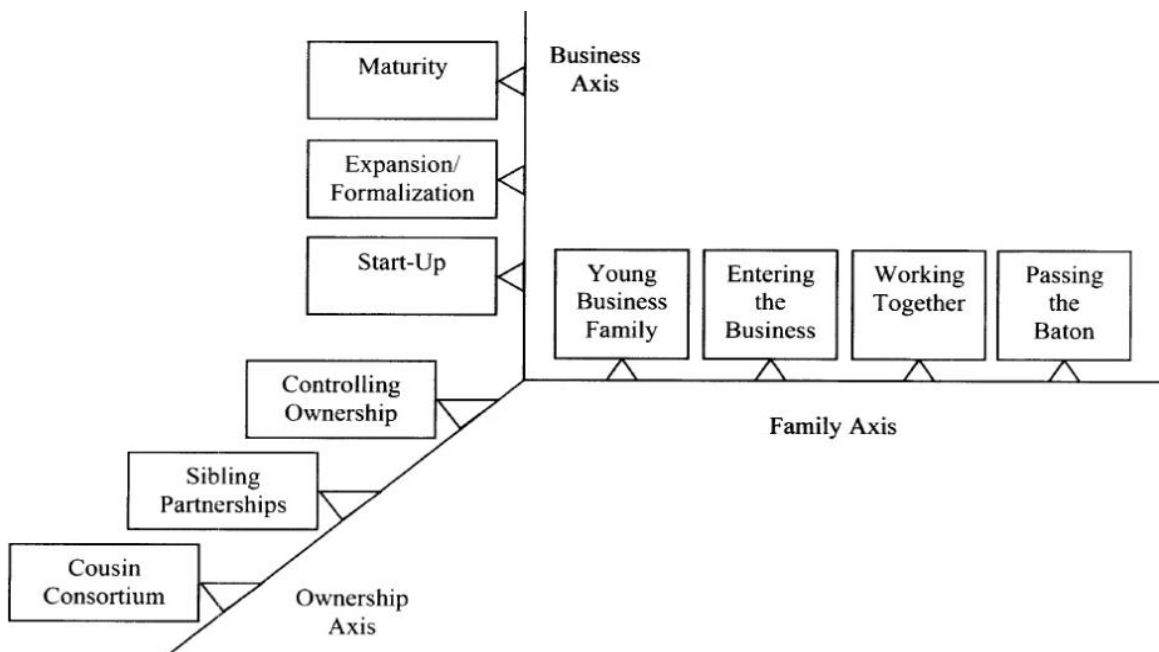
Teaching Notes Appendices

TN Appendix 1 The Systems Theory Model of Family Business



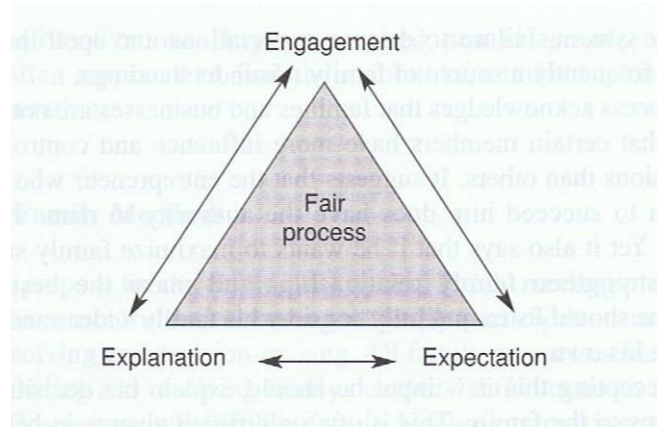
Source: Poza, Ernesto J. 2010. *Family Business*. 3rd ed. Mason, OH: South-Western Cengage Learning.

TN Appendix 2 The Three-Dimensional Development Model



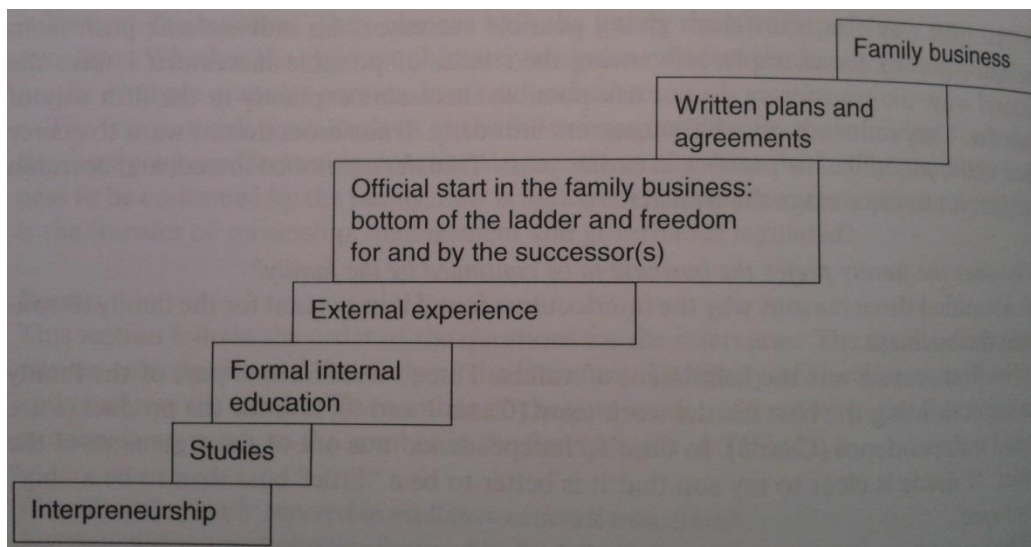
Source: Gersick Kelin E. 1997. *Generation to Generation: Life Cycles of the Family Business*. Boston:Harvard Business Press.

TN Appendix 3 The Elements of Fair Process



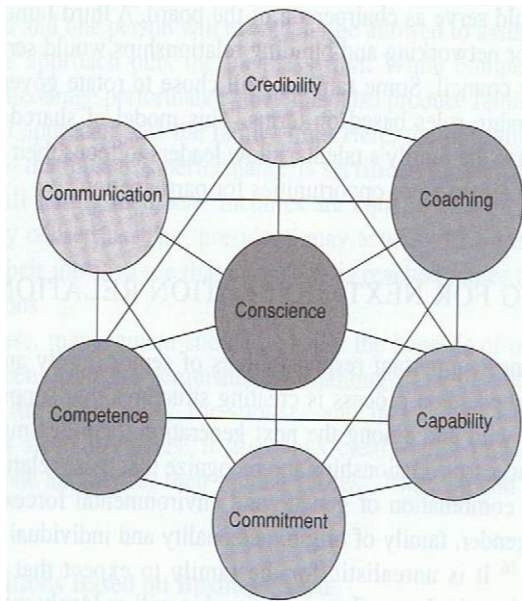
Source: Carlock, Randel S. and Ward, John L. 2001. *Strategic Planning for the Family and Business*. New York: Palgrave.

TN Appendix 4 Six-Stepping Stones to the transfer of the family business



Source: Poutziouris Panikkos, Smyrnios Kosmas X. and Klein Sabine B. 2006. "Towards a business family dynasty: a lifelong, continuing process" In *Handbook of Research on Family Business*, ed. Johan Lambrecht and Rick Donckels, 388-401. Cheltenham: Edward Elgar Publishing Limited.

TN Appendix 5 7-Cs: Behaviors Contributing to Successor Performance



Conscience:	Demonstrated ethical behavior in dealings with the family and the business
Credibility:	Respect of the family and business based on accomplishments, work performance and personal style
Coaching:	The ability to teach and develop other people's skills and talents
Capability:	The intellectual and emotional talents for future growth as a manager and leader
Commitment:	A personal decision to support the family's and the business' interests
Competence:	The technical ability or skills required to manage the business
Communication:	The ability to have meaningful relationships based on sharing information

Source: Carlock, Randel S. and Ward, John L. 2001. *Strategic Planning for the Family and Business*. New York: Palgrave.

Teaching Plan

This teaching plan is done for an 80 minute class. Students should read the case study before the class and form small groups. Additionally, the instructor should ask them to think about possible moves that Pedro Manuel could take, to develop a strategy with the option they consider to be the best one and to point out its pros and cons. After all the presentations, the instructor should summarize all the options appointed and together with the students review each one. After this, the instructor could go through all the other questions suggested.

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|---------------------|--|
| (5 minutes) | Introduction of PCV case study by the instructor |
| (15 minutes) | Students presentations. Each group should take max. 3 minutes. |
| (30 minutes) | Discussion about the options presented and final conclusion. |
| (10 minutes) | Process to choose the next CEO |
| (10 minutes) | Should António be chosen as the next CEO? |
| (10 minutes) | Discussion about ownership transfer - implications of the family inheriting the business without a plan. |

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